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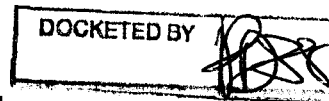
BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA KENNEDY
PAUL NEWMAN
BRENDA BURNS

Arizona Corporation Commission
DOCKETED

JUN 27 2011



IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS AQUA FRIA
WATER DISTRICT, HAVASU WATER

DOCKET NO. W-01303A-10-0448

NOTICE OF FILNG DIRECT TESTIMONY OF

MR. GORDON W. D. PETRIE

ON BEHALF OF

CORTE BELLA GOLF CLUB

Mashie, LLC an Arizona limited liability company doing business as Corte Belle
Golf Club ("Corte Bella"), hereby files the Direct Testimony of Gordon W. D. Petrie
relating to rate design for the Agua Fria Water District and, more specifically, the

establishment of a recovered water rate for non-potable water used by Corte Bella.

Corte Bella also wishes to notify the Hearing Division and the parties that Mr. Petrie has limited availability during the timeframe of the hearing. Mr. Petrie has a long-planned trip to Scotland scheduled for August 18, 2011 (evening departure) through September 9, 2011. Mr. Petrie would be available to testify on August 17th or the 18th. Corte Bella's long-time hydrologist and consultant, Michael Lacey, who had planned to testify, will return to public service as the Deputy Director of the Arizona Department of Water Resources on June 27, 2011. Corte Bella will instead rely on the testimony of Mr. Petrie.

RESPECTFULLY SUBMITTED this 27th day of June, 2011.

By:



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dba Corte Bella Golf Course

ORIGINAL and thirteen (13) copies of the foregoing
filed this 27th day of June, 2011 with:

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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed
this 27th day of June, 2011, to:

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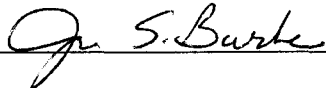
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Attorney for Mashie, LLC dba Corte Bella Golf Club

BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE, Chairman
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS AQUA FRIA
WATER DISTRICT, HAVASU WATER
DISTRICT, AND MOHAVE WATER DISTRICT

DOCKET NO. W-01303A-10-0448

DIRECT TESTIMONY

OF

MR. GORDON W. D. PETRIE

ON BEHALF OF

CORTE BELLA GOLF CLUB

June 27, 2011

Exhibits

Exhibit 1 – *Pleasant Valley Country Club Non-Potable Water Agreement*
("CB Non-potable Water Agreement.") (August 5, 2002)

Exhibit 2 – Aerial Photograph of Corte Bella Golf Course

I. PROFESSIONAL QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gordon W. D. Petrie. My business address is 6425 East Teton Circle,
Mesa, AZ 85215.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Scottsdale Golf Group as President and Chief Financial
Officer and I serve as the President of Mashie, LLC. In this capacity, I am
responsible for financial reporting, legal, tax, risk management and human
resources oversight, strategic planning, acquisitions, and day-to-day operations
for Mashie, LLC.

Q. PLEASE DESCRIBE YOUR APPLICABLE WORK EXPERIENCE.

A. Over the course of my career, I have worked in the finance departments of a
number of large multi-national corporations in Canada and the United States.
These companies include Price Waterhouse, Union Carbide, Massey Ferguson,
Inspiration Consolidated Copper (Chief Financial Officer) and Ramada Inc.
(Corporate Group Controller). In 1989, I started my own financial services
consulting firm and, in 1993, I joined a client the Scottsdale Golf Group. I am a
member of the Institute of Chartered Accountants of Scotland and I am a Certified
Public Accountant.

1 **Q. WHAT IS YOUR CONNECTION TO CORTE BELLA GOLF CLUB?**

2 A. Mashie, LLC is the Arizona limited liability company that owns and operates the
3 Corte Bella Golf Club ("Corte Bella"). I serve as President of Mashie, LLC.

4 **II. PURPOSE AND SUMMARY**

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. Corte Bella asks that the rate it pays for water – recovered from single use wells
7 that are unassociated with the Arizona-American water system – be reduced to
8 \$250.00 per acre foot. The circumstances surrounding use of water at Corte Bella
9 are unique: The wells were given to Arizona-American for purposes of serving
10 the golf course, no distribution system was built by Arizona-American, Arizona-
11 American has a separate contractual obligation to supply the course, and the
12 course must use water that is characterized as "recovered" water, not
13 groundwater. These factors all support a lower rate for water use. The current
14 rate of \$414 per acre foot is vastly higher than the water costs paid by golf courses
15 in the vicinity of Corte Bella and is not warranted by costs incurred by Arizona-
16 American.

17 **III. BACKGROUND**

18 **Q. WHAT IS THE HISTORY OF THE CORTE BELLA GOLF CLUB?**

19 A. Corte Bella was constructed by Del Webb Corporation in 2004. Just a year prior,
20 Arizona-American was granted permission by the Commission to enlarge its
21 CC&N to provide water and sewer service to the Corte Bella development, a
22 residential development that surrounds the Corte Bella Golf Club and contains

1 1,650 homes.¹ (Note that in 2003, the Corte Bella development was known the
2 Pleasant Valley Country Club.)

3 **Q. HOW DID THE PARTIES ARRANGE WATER SERVICE FOR THE**
4 **CORTE BELLA GOLF CLUB?**

5 A. In 2002, Del Webb Corporation and Arizona-American entered into a contract to
6 have Arizona-American deliver non-potable water owned by Del Webb to the
7 Corte Bella golf course. The contract was titled *Pleasant Valley Country Club*
8 *Non-Potable Water Agreement* ("CB Non-potable Water Agreement."). Without
9 the CB Non-potable Water Agreement (or a similar agreement), Del Webb could
10 not have obtained approval for the subdivision from Maricopa County. Pursuant
11 to the CB Non-potable Water Agreement, Del Webb Corporation gave Arizona-
12 American two irrigation wells located at the northern edge of the golf course and
13 Arizona-American agreed to continuously provide non-potable water services to
14 the golf course.² The Agreement provides alternative means for supplying the
15 water, but requires that the water be from a recoverable, non-groundwater source
16 (e.g. effluent, CAP water...). The wells now used to recover stored water for the
17 golf course, but originally served as the source of water supply for the agricultural
18 activities on the site prior to the development of Corte Bella.

¹ ACC Decision No. 65757, Docket No. WS-01303A-02-0633 (March 20, 2003).

² *Pleasant Valley Country Club Non-Potable Water Agreement* ("CB Non-potable Water Agreement.") (August 5, 2002) (Attached as Exhibit 1). All water delivered to Corte Bella was to be offset by the recharge of CAP water in the year of pumping. To date, 100% of the water delivered to Corte Bella is considered to be a fully renewable water use by the Arizona Department of Water Resources.

1 **Q. WHAT RATE WAS TO BE PAID FOR WATER SERVICES TO THE**
2 **GOLF COURSE?**

3 A. The CB Non-potable Water Agreement provides that Arizona-American would
4 provide non-potable water services subject to rates and tariffs filed with the
5 Commission.³ The course was built in 2003 and from that point until 2009 Corte
6 Bella paid \$0.62 per thousand gallons or \$202.00 per acre foot to Arizona-
7 American for non-potable water under the Agua Fria Water District Tariff.

8 **Q. HAS THIS RATE CHANGED DRAMATICALLY IN RECENT YEARS?**

9 A. Yes. In December of 2009, the Commission increased the rate for non-potable
10 water in the Agua Fria Water District to \$2.7280 per thousand gallons or \$889.00
11 per acre foot.⁴ This four-fold increase (from \$.62 to \$2.72) made the operation of
12 Corte Bella financially unsustainable.⁵ In response to an emergency mid-summer
13 request from Corte Bella, the Commission reduced the Agua Fria Water District
14 non-potable water rate to \$1.24, or \$414 per acre foot, effective June 10, 2010.⁶
15 This rate was still more than double the prior rate. Corte Bella continues to pay
16 the \$414 rate for non-potable water purchased in the Agua Fria District from
17 Arizona-American.

³ CB Non-potable Water Agreement, p. 6.

⁴ Decision No. 71410 (Dec. 8, 2009)

⁵ See Corte Bella's A.R.S. §40-252 Application to Amend the Agua Fria District Non-Potable Water Rate, Exhibit 4 (Docket No. SW-01303A-08-0227) (Afft. of Gordon Petrie) (6/7/2010).

⁶ Order issued in Docket SW-01303A-08-0227 (June 17, 2010).

1 **Q. HAS ARIZONA-AMERICAN APPLIED FOR A RATE INCREASE IN**
2 **THIS RATE APPLICATION?**

3 A. Yes. Arizona-American has asked to increase Corte Bella's rate for non-potable
4 water from \$414 per acre foot rate to \$437 per acre foot.

5 **IV. APPROPRIATE RATE FOR CORTE BELLA WATER**

6 ***A. Type of Water and Appropriate Rate Categories***

7
8 **Q. WHAT HAS ARIZONA-AMERICAN PROPOSED WITH RESPECT TO**
9 **RATE CATEGORIES?**

10 A. Arizona-American has proposed a new three-tiered structure for non-potable
11 irrigation water in the Agua Fria Water District: treated effluent (lowest price),
12 untreated surface water (intermediary price), and untreated groundwater (highest
13 price). Conceptually, these categories may appear attractive, but practically
14 speaking they cannot be applied to Corte Bella. For the reasons explained in this
15 testimony, Corte Bella is not similarly situated to most irrigation users and does
16 not purchase untreated groundwater. In spite of this, in Kiger Schedule H-3,
17 Arizona-American assigns Corte Bella the highest irrigation water rate (\$1.34 per
18 1,000 gallons), which is described by Mr. Kiger as the "untreated groundwater
19 rate." Corte Bella does not purchase untreated groundwater from Arizona-
20 American. Under the CB Non-potable Water Agreement, Corte Bella purchases
21 CAP water from Arizona-American. It would be a mistake to design a rate

1 agreed to use wells at Corte Bella to fund other systems and operations at
2 Arizona-American.

3 **Q. WHAT DOES ARIZONA-AMERICAN TYPICALLY CHARGE FOR**
4 **NON-POTABLE WATER?**

5 A. The table below reflects non-potable/non-groundwater rates charged by Arizona-
6 American in its other districts. The mean rate is substantially below \$1.00 per
7 \$1,000 gallons. This sharply contrasts with the \$1.34 sought by Arizona-
8 American from Corte Bella in the Agua Fria Water District. In Corte Bella's
9 case, the lack of capital investment required of Arizona-American to serve the
10 golf course argues for a rate that is even lower than the typical rates.

11

Arizona American	(\$/1,000 Gals)	(\$/Acre- foot)	Effective Date	Water Classification
Anthem Water District	\$1.43	\$465.97	2008	Irrigation
Mohave Waste Water District	\$0.70	\$227.61	2009	Effluent
Sun City West Water District	\$0.55	\$178.83	2009	Raw CAP
Sun City West Water District	\$0.51	\$166.18	2009	Effluent
Mean	\$0.80	\$259.65		

12

13 **V. ARIZONA-AMERICAN'S COSTS**

14 **Q. IS ARIZONA-AMERICAN'S PROPOSED NON-POTABLE RATE**
15 **SUPPORTED BY ITS COST OF PROVIDING SERVICE?**

16 A. No. To serve Corte Bella, Arizona-American uses two irrigation wells given to
17 Arizona-American pursuant to the CB Non-potable Water Agreement. All of the
18 infrastructure necessary to provide water for golf course irrigation was provided
19 to Arizona-American at no cost. Additionally, Arizona-American was provided

1 357 acre-feet of CAP water leased from the Ak Chin Indian Community with no
2 associated acquisition costs. Today, there are two principal costs to Arizona-
3 American: 1.) Delivery and recharge of CAP Water, and 2.) Power costs to
4 recover the CAP water from the Corte Bella irrigation wells. Power costs
5 associated with pumping water from these irrigation wells should average less
6 than \$80 per acre-foot. The average CAP cost for 425 acre feet of water is \$108
7 per acre feet (\$106 for the first 357 acre-feet and \$121 for each acre-foot above
8 that amount). Adding the CAP per-acre-foot cost to the estimated power cost,
9 results in total costs of less than \$200 per acre foot. A cost-based rate is logical in
10 this case. The system for watering the Corte Bella golf course is distinct and
11 separate from any other part of the Arizona-American water system. The
12 irrigation infrastructure is robust, redundant, and poses little threat of costs for
13 repair or replacement to Arizona-American.

14 **Q. IS CORTE BELLA'S NON-POTABLE WATER USE CONNECTED IN**
15 **ANY WAY TO ARIZONA-AMERICAN'S OTHER WATER OR WASTE**
16 **WATER OPERATIONS?**

17 A. No, and I think Arizona-American agrees. Mr. Kiger, on page 14 of his
18 testimony, explains that the non-potable irrigation rate to be set for Corte Bella
19 "bears no connection" to the White Tanks treatment plant and that the proposed
20 rate is slightly higher than the current rate to "maintain the appropriate incentive."
21

1 **Q. DOES CORTE BELLA NEED A HIGHER WATER RATE TO MAINTAIN**
2 **FOCUS ON WATER CONSERVATION?**

3 A. No. The new higher rate (\$414) has squeezed Corte Bella beyond conservation.
4 The golf course has suffered over the past two years due to inordinately high
5 water costs. As Exhibit 2 to my testimony illustrates, the golf course areas
6 watered by Corte Bella have been reduced. Corte Bella is the development in
7 Exhibit 2 with the slightly red background. The surrounding golf courses (visible
8 on the satellite image to the south and to the west) do not purchase water for their
9 golf courses from Arizona-American and are not subject to inordinately high
10 water rates. As discussed above, the water rate selected by Arizona-American is
11 not in keeping with standard golf course rates and has harmed, and will continue
12 to harm, the course and the community.

13 **Q. HAS CORTE BELLA TAKEN STEPS TO CONSERVE WATER IN**
14 **RESPONSE TO THE HIGH WATER RATE?**

15 A. Yes. The aerial photograph (Exhibit 2) illustrates this in an indisputable way. I
16 can also tell you that our strategy was to reduce water use from 625 acre feet in
17 2009 to roughly 425 acre feet each year going forward (depending on the
18 weather). Even with this large reduction, Corte Bella will still pay almost 40%
19 more at today's rates than it paid in 2009. To accomplish these water use
20 reductions, Corte Bella did not overseed roughly 50 acres of turf in 2010 during
21 the winter (heavy use) season. We also moved to a less frequent watering
22 schedule, applied wetting agents to the greens to increase water infiltration and

1 holding capacity, and used nightly evapotranspiration measures that matched
2 daily watering needs to the amount of water lost through plant transpiration and
3 soil/surface evaporation. Additionally, Corte Bella ceased watering the driving
4 range in the winter months, watering it only twice a week in the summer to
5 prevent death of the grass. Even with these conversation measures, Corte Bella
6 could not adequately water the course in 2010. The rate charged by Arizona-
7 American necessitated water reductions that were too severe. The narrow green
8 fairways north of Deer Valley Drive on Exhibit 2 illustrate the practical result of
9 the high water rates. The fairways just south of Deer Valley Road are located in a
10 private course not served by Arizona-American.

11 **Q. IS ARIZONA-AMERICAN WELL SITUATED OR QUALIFIED TO**
12 **JUDGE CORTE BELLA'S CONVERSATION EFFORTS?**

13 A. No. The Arizona Department of Water Resources ("ADWR") is charged with
14 ensuring appropriate water use on golf courses. ADWR reviewed the complex
15 arrangement for water supply and use on the Corte Bella Golf Course in
16 conjunction with approval of the Certificate of Assured Water Supply for the
17 project. Arizona-American does not have the resources or expertise to judge
18 whether a high water rate will cause long-term harm to a golf course. Harm to the
19 Corte Bella course will evolve into harm to the surrounding community. Within
20 the local Corte Bella area, the micro-economy, home sales, and jobs all are
21 impacted if Corte Bella is not run and maintained as it was designed. In the Sun
22 City/Sun City West area, golf courses are vital to the economic well-being of the
23 surrounding neighborhoods.

VI. SUMMARY AND CONCLUSION

Q. WHAT DO YOU RECOMMEND?

A. Corte Bella uses recovered water that should be priced in the range of other recovered water sources, such as effluent or CAP water. Although it is difficult to understand the Corte Bella water use arrangement as an initial matter, the CB Non-Potable Water Agreement makes clear that Corte Bella does not use untreated groundwater. Corte Bella uses recovered water. The wells used to serve Corte Bella were given to Arizona-American for the sole purpose of serving Corte Bella. The Corte Bella system is in no way connected to other segments of the Aqua Fria Water District. For these reasons, Corte Bella asks the Commission to set a water service rate of \$250.00 per acre foot for the recovered water services supplied to Corte Bella by Arizona-American.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

CB-1 Exhibit 1

PLEASANT VALLEY COUNTRY CLUB NON-POTABLE WATER AGREEMENT

among

DEL WEBB HOME CONSTRUCTION, INC.,

DEL WEBB CORPORATION,

and

ARIZONA-AMERICAN WATER COMPANY

Dated as of August 5, 2002

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EXHIBITS

Exhibit A -	Definitions
Exhibit B -	Project Area
Exhibit C -	Water Lease
Exhibit D -	Well-Sharing Agreement

PLEASANT VALLEY COUNTRY CLUB NON-POTABLE WATER AGREEMENT

AGREEMENT dated as of August 5, 2002, among DEL WEBB HOME CONSTRUCTION, INC., an Arizona corporation ("Developer"), DEL WEBB CORPORATION, a Delaware corporation ("Webb"), and ARIZONA-AMERICAN WATER COMPANY, an Arizona corporation ("AAW").

RECITALS:

A. Developer, an Affiliate of Webb, is constructing a new residential retirement country club community in Maricopa County, Arizona, known as Pleasant Valley Country Club (the "Project"). The Project is being constructed pursuant to a 718-acre Development Master Plan which was approved by Maricopa County (DMP 2001002, as may be amended from time to time). The Project area is depicted generally on Exhibit B.

B. AAW holds a certificate of convenience and necessity issued by the Arizona Corporation Commission (the "Commission") regarding AAW's provision of public utility water service to property near the Project.

C. Developer desires that AAW provide Non-Potable Water Services to the Golf Course.

D. AAW desires to provide Non-Potable Water Services to the Golf Course. To that end, AAW will apply to the Commission for the expansion of its certificate of convenience and necessity to include the Project.

E. At present, Section 309 of Maricopa County Subdivision Regulations (the "County Regulation") provides as follows:

"SECTION 309. WATER USE. If a common area over ten (10) acres in size, a lake or a golf course requiring irrigation is proposed within a subdivision or a Development Master Plan, one hundred (100%) percent of the water used to fill or refill the lake, and irrigate the golf course and common area shall be a renewable supply of water, such as treated effluent, surface water or Central Arizona Project (CAP) water. A plan shall be submitted that includes a schedule which ultimately provides for one hundred (100%) percent use of a renewable supply of water to fill, refill or irrigate the facilities noted above. A renewable water supply must be used during each phase of the project and at the completion of the project. The facilities subject to this regulation shall be designed and constructed to facilitate the use of treated effluent. The Plan approved by the Board of Supervisors may provide for the interim use of groundwater in conjunction with the use of a renewable supply of water during the development phases of the project. The Plan approved by the Board of Supervisors may also allow for:

1. The use of groundwater in the event of a threat to public health and safety, only if the additional use of groundwater will reduce the risk of a public health and safety hazard and all other actions would not reduce the risk.
2. The use of groundwater to leach soil to maintain turf, provided there is no other available source of water that would achieve the same result.
3. The use of non-potable groundwater.
4. The plan may also provide for the use of groundwater in subdivisions or Master Planned Communities where the seasonal occupancy of the residents will cause a seasonable fluctuation in the availability of treated effluent.

It is the Parties' intent that the Project comply with the County Regulation and that the water supply provided to the Golf Course be a Nongroundwater Supply.

F. To facilitate the foregoing, Webb has obtained certain water rights.

G. To also facilitate the foregoing, certain water/wastewater infrastructure will need to be constructed, as contemplated by the Water/Wastewater Agreement.

AGREEMENT:

NOW, THEREFORE, the Parties agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions.

Capitalized terms and other terms used in this Agreement have the meanings set forth in Exhibit A, unless the term is defined elsewhere in this Agreement and unless the context otherwise requires. Those terms include the singular and the plural forms of the defined terms.

ARTICLE II

AUTHORIZATIONS

2.1 Authorizations.

AAW will, at its own expense and on a timely basis, take all reasonable steps necessary to obtain, maintain and renew any Authorizations, except as otherwise provided herein with respect to certain Authorizations to be obtained by the Webb Parties.

2.2 Cooperation.

The Webb Parties will, at their own expense and on a timely basis, do whatever is reasonably necessary to assist AAW in obtaining any Authorizations.

2.3 Condition Subsequent.

The obligations of AAW and the Webb Parties under this Agreement are contingent on obtaining the Authorizations.

2.4 Application to Commission.

The Application described in Section 2.4 of the Water/Wastewater Agreement will, to the extent necessary, also cover the services contemplated by this Agreement.

ARTICLE III

AAW NON-POTABLE WATER SERVICES FOR GOLF COURSE

3.1 Commencement of Service; Approvals Required; Condition Subsequent.

As provided in Section 5.4 and Section 6.4, respectively, of the Water/Wastewater Agreement, (a) Developer will time the completion of its work on the Non-Potable Facilities so as to enable AAW to provide Non-Potable Water Services to Developer for use on the Golf Course when such services are requested by Developer pursuant to this Agreement, and (b) before AAW is required to provide Non-Potable Water Services to Developer for use on the Golf Course pursuant to this Agreement, the Facilities from which the service is to be provided must have been granted Operational Acceptance by AAW. Developer acknowledges and agrees that AAW's provision of the Non-Potable Water Services under this Agreement necessarily depends on and is conditioned on the delivery of the Ak-Chin Water to AAW in accordance with Article IV.

3.2 Delivery of Non-Potable Water to Golf Course.

a. General.

i. AAW will provide Non-Potable Water Services to Developer for use on the Golf Course in accordance with and subject to the rates and tariffs established by the Commission. Subject to fulfillment of Webb's obligations set forth in Article IV, the water delivered to Developer for use on the Golf Course by AAW will be a Nongroundwater Supply and will conform to the County Regulation, to the extent the County Regulation is applicable. In addition to the Ak-Chin Water provided for in Section 4.2(a) (which, while such Section is in effect, will be deemed, for accounting purposes, to be the first water to be supplied by AAW to Developer for use on the Golf Course), AAW will be responsible for acquiring and supplying

300 acre feet per year of the Nongroundwater Supply to Developer for use on the Golf Course. Groundwater may be delivered to Developer for use on the Golf Course only in the event of an emergency or as otherwise allowed by the County Regulation. Water delivered to Developer pursuant to this Section will not be used anywhere other than on the Golf Course or for any purpose other than the water needs of the Golf Course and will not be diverted or otherwise transferred by Developer to any other person or place or for any other purpose.

ii. If Developer needs to use in excess of 650 acre feet of water on the Golf Course in a calendar year:

A. In addition to the 300 acre feet per year described in paragraph (i) above, AAW will supply to Developer for use on the Golf Course in that year additional water from a Nongroundwater Supply in an amount equal to such excess.

B. Notwithstanding Article IV, the Webb Parties will (during the immediately following calendar year) make available for purchase by AAW a like amount (that is, an amount equal to such excess amount) of water from a Nongroundwater Supply. Webb is entitled (but not obligated) to make Ak-Chin Water available to AAW in connection with the foregoing obligation to AAW, but any such Ak-Chin Water will be in addition to the 357 acre feet of Ak-Chin Water which Webb is obligated to sell to AAW pursuant to Section 4.2(a). This paragraph (ii) will no longer be applicable to Webb after completion of the assignment contemplated by Section 4.8, but will continue to be applicable to Developer after that time.

b. Logistics of Nongroundwater Supply for Golf Course. The Parties contemplate that the delivery of a Nongroundwater Supply to Developer for use on the Golf Course will be accomplished as follows:

i. AAW will use its reasonable best efforts to cause the Nongroundwater Supply to be stored in a recharge facility and recovered by means of the On-Site Wells for delivery to Developer for use on the Golf Course. In connection with the storage of the water:

A. AAW will use its reasonable best efforts to store the Nongroundwater Supply in either the Agua Fria Recharge Facility, the Maricopa Water District GSF, the Hieroglyphics Facility, the Sun City West Underground Storage Facility, or other facilities located from time to time within the West Salt River Valley Sub-Basin.

B. AAW will pay all costs associated with all underground storage of water, including costs of obtaining water storage permits and costs incurred pursuant to water storage agreements. Such costs include the cost of transporting water to the storage facility, permitting, storage facilities fees, recovery of stored water, constructing and/or operating an Underground Storage Facility and acquiring the right to store water in an Underground Storage Facility.

ii. If the process described in the preceding paragraph cannot be practically realized despite such efforts, AAW will cause the Nongroundwater Supply to be delivered to Developer for use on the Golf Course by whatever other means AAW has available to it, including direct delivery of effluent or other sources. However, until Buildout has occurred, the source of such Nongroundwater Supply will be limited to (w) Ak-Chin Water, (x) CAP Water, (y) effluent rated as "Class B+ reclaimed water" under ADEQ regulation A.A.C. R18-11-305, or (z) recovered storage credits from a source other than Ak-Chin Water, CAP Water, or other Non-groundwater Supply diverted from the CAP canal and directly delivered to Developer for use on the Golf Course. In the event that AAW desires to use a Nongroundwater Supply

other than recovered storage credits (e.g., CAP Water diverted from the CAP canal and directly delivered to Developer for use on the Golf Course or treated effluent rated as "Class B+ reclaimed water" as described above and directly delivered to Developer for use on the Golf Course), AAW shall provide 180-days advance written notice to the Webb Parties of its desire to directly deliver such Nongroundwater Supply to the Golf Course.

ARTICLE IV
AK-CHIN WATER

4.1 Water Lease.

a. Basic Terms. The Ak-Chin Water is the source of the water that Webb will sell to AAW under this Article and that will enable AAW, in part, to provide the Non-Potable Water Services contemplated by this Agreement. Webb has obtained the Ak-Chin Water under the Water Lease. A copy of the Water Lease is attached as Exhibit C. Under the Water Lease, Webb is obligated to pay Water Lease Charges (as defined therein), Water Use Charges (as defined therein) and Additional Water Lease Charges (as defined therein) to Ak-Chin. The Water Lease Charges consist of a principal component and an interest component. The principal component of the Water Lease Charges under the Water Lease will not exceed \$1,305.30 per acre foot. The principal component is payable in equal annual installments over ten years, commencing on the date specified in Section 5(A) (1) of the Water Lease. The Additional Water Lease Charges consist of payments related to the extension of the term of the Water Lease with respect to certain Identified Water (as defined in the Water Lease).

b. Covenants of Webb in Connection with the Water Lease. Webb covenants and agrees that:

- i. Webb will pay all amounts payable under the Water Lease on or before the due date of the payments.
- ii. Webb will not default under the Water Lease.
- iii. Except as permitted in Section 4.2(b), Webb will not sell, transfer, assign, convey, encumber or dispose of all or any portion of its interest in the Ak-Chin Water to

any person other than AAW, without the prior written consent of AAW, which consent will not be unreasonably withheld.

iv. Webb will not materially amend, waive rights or obligations under, or terminate the Water Lease with respect to the Ak-Chin Water without the prior written consent of AAW, which consent will not be unreasonably withheld. Webb will provide AAW with copies of all correspondence pertaining to the Ak-Chin Water between Webb and Ak-Chin and between Webb and the Secretary of the Interior. Promptly after execution of this Agreement, Webb will notify Ak-Chin that Webb has granted AAW the right to buy the Ak-Chin Water and has agreed not to encumber its interest in the Ak-Chin Water.

4.2 Water Supply Agreement.

a. Water Supply. On Operational Acceptance of the Non-Potable Facilities that enable AAW to provide Non-Potable Water Services to Developer for use on the Golf Course and continuously thereafter, Webb will sell to AAW, and AAW will purchase from Webb, 357 acre feet of Ak-Chin Water to provide a Nongroundwater Supply to Developer for use on the Golf Course, as set forth in Section 3.2(a)(i). The monthly amount of Ak-Chin Water to be sold by Webb to AAW during each year will be the amount of water set forth in the water delivery schedule submitted by Webb to AAW for that year in accordance with Section 4.3.

b. Unpaid, Untaken or Unscheduled Water. Webb will have the right (but will not be obligated) to resell, reconvey or use without any obligation or payment to AAW: (i) any Ak-Chin Water scheduled for delivery to AAW for which AAW does not pay the Ak-Chin Water Use Costs; (ii) any Ak-Chin Water scheduled for delivery to AAW for which Ak-Chin Water Use Costs have been paid and the delivery of which AAW refuses; and (iii) any Ak-Chin Water which is available to Webb but which is not scheduled for delivery to AAW. If Webb re-

sells, reconveys or uses any Ak-Chin Water described in clause (ii), Webb will, within 30 days of the re-sale, reconveyance or use, reimburse AAW for such Ak-Chin Water Use Costs.

4.3 Scheduling of Water.

No later than each August, the Parties will meet and discuss the amount of water needed for the Golf Course in the following calendar year. On or before September 1 of each year, Webb will submit to AAW a written water delivery schedule setting forth the amounts of Ak-Chin Water which will be made available to AAW to purchase the following calendar year. The amounts will equal 357 acre feet in the aggregate (or, for the calendar year in which such Operational Acceptance occurs, the pro rata amount of such acre feet for the partial year, determined by reference to the date of Operational Acceptance). Such schedule will be subject to approval by AAW, which will be conditioned only on the monthly constraints associated with the recharge facility or facilities used to store the water in that year. After AAW approves the schedule, Webb will place the order for the Ak-Chin Water with the necessary and appropriate persons as required by the Water Lease.

4.4 Delivery of Water.

Webb will deliver the Ak-Chin Water (or cause the Ak-Chin Water to be delivered) to AAW according to the schedule contemplated by Section 4.3 at turnouts along the main aqueduct of the Central Arizona Project as requested by AAW, subject to the provisions of the Water Lease.

4.5 Water Quality.

The Ak-Chin Water will be delivered by Webb to AAW "as is" without warranty as to the quality thereof, including warranties of merchantability and fitness for a particular purpose. Webb does not warrant the quality of Ak-Chin Water. Webb has no obligation to

construct or furnish water treatment facilities or to take any other action to maintain or better the quality of the Ak-Chin Water sold pursuant to this Article.

4.6 Ownership of Water.

On delivery of the Ak-Chin Water to AAW at the turnouts as provided in Section 4.4, AAW will hold sole right, title and interest in and to such water. This Agreement is an agreement for the sale of water and is not to be construed, and is not intended, to be an assignment or sublease of any of Webb's rights under the Water Lease.

4.7 Payment for Water.

After Operational Acceptance of the Non-Potable Facilities that enable AAW to provide Non-Potable Water Services to Developer for use on the Golf Course, AAW will pay to Webb the Ak-Chin Water Use Costs payable for the Ak-Chin Water to be delivered pursuant to the schedules submitted as provided in Section 4.3, and for any additional amount of Ak-Chin Water as Webb and AAW may agree. Not more frequently than monthly, Webb may submit invoices to AAW for the Ak-Chin Water Use Costs projected to be incurred by AAW in the following calendar month. AAW will not be obligated to pay any amount for such costs until receipt of the invoice. The invoice will be accompanied by all reasonable additional supporting data which AAW may request. AAW will pay the invoiced amount to Webb within 30 days after receipt of the invoice. If AAW objects to any portion of the invoice, AAW will pay to Webb the undisputed portion and notify Webb of the basis for the objection. If AAW does not pay the Ak-Chin Water Use Costs at the time required by this Section, Webb will be entitled to interest on the past due amounts as provided in Section 8.15. Within 45 days after the end of each calendar year, AAW and Webb will meet for purposes of reconciling ("truing up") the amount paid by AAW for projected Ak-Chin Water Use Costs with respect to each month of such year and the

actual Ak-Chin Water Use Costs incurred by AAW for each such month, and Webb or AAW, as applicable, will pay to the other within 30 days after such reconciliation any overpayment or underpayment, as applicable. Nothing in this Section will be construed to preclude Webb from recovering damages from AAW caused by AAW's failure to pay Ak-Chin Water Use Costs as required by this Section.

4.8 Assignment.

On the earlier of (i) within six months after Buildout, (ii) any assignment by Webb under Section 4.8 of the Agreement for Anthem Water/Wastewater Infrastructure dated as of September 29, 1997, as amended, among Webb, Anthem Arizona, L.L.C., and AAW's predecessors in interest, or (iii) such date as Webb determines, Webb will initiate and diligently prosecute the assignment to AAW of the right to receive 357 acre feet of Ak-Chin Water per annum under the Water Lease. The Water Lease provides that such an assignment must be approved by Ak-Chin and the Secretary of the Interior. If either Ak-Chin or the Secretary refuses to approve the assignment, Webb will be relieved of the obligation to assign the right to receive water under the Water Lease to AAW, but Webb's obligation to sell Ak-Chin Water set forth in this Article will continue. AAW will bear all out-of-pocket costs paid by Webb to third parties in securing all approvals required in order to complete the assignment (such as application and permits fees, but excluding any general and administrative expenses or internal costs incurred by Webb in attending to the assignment). Each party will bear its own internal costs of litigation, in either administrative or judicial forums, in connection with securing the approval of the assignment. Webb will have no obligation to commence such litigation. If Ak-Chin, the Secretary of the Interior or any other party commences litigation against Webb regarding the assignment, Webb will promptly notify AAW in writing. Within ten days after receipt of that

notice, AAW will notify Webb in writing of whether AAW intends to assume the defense of the litigation. If AAW assumes that defense, AAW will have the right to conduct any proceedings or negotiations in connection with the litigation, including defense or settlement of any claims and employment of counsel. Regardless of whether AAW assumes the defense of such litigation against Webb regarding the assignment, AAW will indemnify Webb against all claims, damages, costs and expenses (including reasonable attorney's fees and court costs) related to such litigation. AAW will not settle any claims against Webb without Webb's written consent, which will not be unreasonably withheld.

4.9 Termination.

Webb's obligation to sell Ak-Chin Water to AAW and AAW's obligation to purchase Ak-Chin Water from Webb set forth in this Article will automatically terminate on the occurrence of the earlier of;

- a. The assignment by Webb to AAW of the right to lease 357 acre feet of Ak-Chin Water per annum under the Water Lease in accordance with Section 4.8;
- b. A condemnation, or conveyance in lieu of condemnation, of all or substantially all of the Non-Potable Facilities; or
- c. The expiration or termination of the Water Lease.

ARTICLE V
ON-SITE WELLS

5.1 Transfer of On-Site Wells.

a. On-Site Wells and Wellsites.

i. Within 30 days after Operational Acceptance of the Non-Potable Facilities, Developer will convey to AAW the Webb Well.

ii. Within 30 days after the Bodine Well is conveyed to Developer, Developer will convey to AAW the Bodine Well.

iii. Each conveyance to AAW of an On-Site Well will include the land appurtenant to the On-Site Well (having such area as Developer and AAW mutually agree). The foregoing conveyances will be made in accordance with Section 4.2 of the Water/Wastewater Agreement.

b. Well-Sharing Agreement. Concurrently with the conveyance of the Webb Well described in subsection (a) above, Developer will assign to AAW all of Developer's rights under the Well-Sharing Agreement, a copy of which is attached as Exhibit D. Notwithstanding the foregoing, Developer will be responsible for (and AAW will have no obligation or liability with respect to) any and all costs associated with (i) replacing, upgrading or repairing the Bodine Well to the extent necessary to enable AAW to comply with the terms and conditions of the Well-Sharing Agreement, and (ii) connecting the Bodine Well to the Non-Potable Facilities that deliver water from the Webb Well to Developer for use on the Golf Course to the extent necessary to enable water from the Bodine Well to be used to meet the needs of the Golf Course.

5.2 Authorizations.

Developer will be responsible for obtaining any Authorizations (including a general industrial use permit, a permit to use the On-Site Wells to exercise any Type 1 right associated with the Project, or a recovery well permit) necessary for Del Webb Home Construction, Inc., to utilize the On-Site Wells for construction water.

5.3 Usage of Wells.

a. Priority. To the extent the On-Site Wells have capacity to produce water, the On-Site Wells will be used for the following purposes, and in the following order of priority:

i. By AAW to meet any obligations of AAW arising under the Well-Sharing Agreement as long as the Well-Sharing Agreement applies to use of any On-Site Well conveyed to AAW.

ii. By AAW to provide a Nongroundwater Supply to Developer for use on the Golf Course as described in Section 3.2(b).

iii. By Del Webb Home Construction, Inc., for construction water as described in Section 5.2, until Buildout has occurred. During that time period, Del Webb Home Construction, Inc., will have the right to have access to and use water withdrawn from the On-Site Wells conveyed to AAW. The meters at the On-Site Wells will be read by AAW so as to enable Del Webb Home Construction, Inc., to report in its annual withdrawal report to ADWR the usage of water for construction purposes pursuant to its Type 1 right or general industrial use permit. AAW will from time to time supply the meter readings to Del Webb Home Construction, Inc., which will duly report the usage in such annual withdrawal report. Del Webb Home Construction, Inc., will be solely responsible for the costs associated with such metering, including the installation and maintenance of the meter. Such costs will not constitute advances

in aid of construction or Developer's Advances under the Water/Wastewater Agreement. Del Webb Home Construction, Inc., will reimburse AAW from time to time for such costs within 30 days after submission by AAW of an invoice for same.

iv. For the provision of Water Services to the Project in accordance with Article VI of the Water/Wastewater Agreement.

v. For such other uses as AAW may determine.

b. Limitation. Notwithstanding the foregoing and subject to the Well-Sharing Agreement, the On-Site Wells will not be used for purposes other than Non-Potable Water Services to Developer for use on the Golf Course, if to do so would cause the Non-Potable Water delivered to Developer for use on the Golf Course to be accounted for by the ADWR as something other than a Nongroundwater Supply.

c. Authorizations. Each of AAW and Developer (whether jointly or individually) will hold a recovery well permit or permits allowing the On-Site Wells to be used as recovery wells. Developer will pay the costs associated with obtaining the recovery well permits and will process the permit applications. Developer will be solely responsible for obtaining any permits necessary for Developer to utilize water from the On-Site Wells for construction purposes. AAW will be responsible for obtaining any other Authorizations required for use by AAW of water from the On-Site Wells.

5.4 Metering.

To the extent allowed by the Non-Potable Facilities conveyed to AAW by Developer under the Water/Wastewater Agreement, AAW will meter water deliveries to Developer for use on the Golf Course so as to allow the water to be accounted for by ADWR as a Nongroundwater Supply.

5.5 Costs.

Del Webb Home Construction, Inc., will pay its share of the power costs associated with use of the On-Site Wells to provide construction water to Del Webb Home Construction, Inc. Such cost will be calculated by reference to the proportionate amount of withdrawn water used for construction purposes, using the maximum kilowatt-hour rate charged by the electric utility during the billing period. AAW will submit an invoice to Del Webb Home Construction, Inc., not more frequently than monthly for such costs. Del Webb Home Construction, Inc., will pay the invoiced amount to AAW within 30 days after receipt of the invoice.

ARTICLE VI
REPRESENTATIVES

6.1 Authorized Representatives.

a. Authority to Act. Each Party will designate at least one individual officer or employee who will be its representative ("Representative"). The Representative is authorized to act on behalf of the Party in performing the provisions of this Agreement. A Party may designate more than one Representative. The designation may be changed from time to time. The designation must be made in writing.

b. No Release. Each Party is responsible for the acts or omissions of its Representative(s). The designation of a Representative by a Party does not release the Party from responsibility for performance of its obligations under this Agreement.

ARTICLE VII
DISPUTE RESOLUTION

7.1 Scope of Article.

This Article governs the resolution of all disputes that arise under this Agreement.

7.2 Good Faith Negotiations.

A Party that believes a dispute exists under this Agreement will first refer the dispute to the Representatives for resolution. The Representatives of each Party will personally meet and attempt in good faith to resolve the dispute. If the Representatives cannot resolve the dispute within seven days, the matter will be referred to senior management of Developer and AAW for resolution. If these persons are unable to resolve the dispute within seven days thereafter, a Party that still believes a dispute requires resolution may avail itself of the provisions of Section 7.3.

7.3 Mediation and Arbitration.

If a Party still believes a dispute requires resolution after following the procedures of Section 7.2, that Party will first give a detailed written notice of dispute to the other Parties setting forth the nature of the dispute. The Parties will then, before resorting to arbitration, first try in good faith to settle the dispute by mediation administered by the American Arbitration Association ("AAA") under its Construction Industry Arbitration Rules or Commercial Arbitration Rules, as appropriate. The mediator must have substantial experience with the water utility industry and with real estate development.

Any dispute not resolved by mediation within 30 days after the initial meeting of the Representatives will, upon request of any Party, be submitted for and settled by binding arbitration administered by the AAA before a single arbitrator. If the controversy or claim relates

to construction, the arbitration will be conducted in accordance with the AAA's Construction Industry Arbitration Rules; otherwise, the AAA's Commercial Arbitration Rules will apply. In any case the arbitrator must have substantial experience with the water utility industry and with real estate development. The arbitrator has no power to amend or modify this Agreement. Judgment on the award rendered by the arbitrator may be entered in any court with jurisdiction.

7.4 Other Remedies.

The preceding paragraphs of this Article are intended to set forth the primary procedure to resolve all disputes under this Agreement. It is expected that all disputes that would traditionally be resolvable by a law court would be resolvable under this procedure. However, the Parties recognize that certain business relationships could give rise to the need for one or more of the Parties to seek equitable remedies from a court that were traditionally available from an equity court, such as emergency, provisional or summary relief, and injunctive relief. Immediately following the issuance of any such equitable relief, the Parties will stay any further judicial proceeding pending mediation or arbitration of all underlying claims between the Parties in accordance with Section 7.3.

The Parties also recognize that the Commission has primary jurisdiction over certain issues that may arise between and among the Parties that relate to the provision of public utility service. Accordingly, this Article is not intended to prohibit any Party from bringing any such issues to the Commission for resolution or from taking any position at the Commission that would not be inconsistent with or barred by this Agreement or by collateral estoppel, res judicata or other issue or fact preclusive doctrines.

Within 30 days after the date of the arbitration award, a Party may appeal to the U.S. District Court for the District of Arizona if such court has jurisdiction, and otherwise to any

state court of record in Arizona having jurisdiction, to vacate and remand, or modify or correct the arbitration award for any of the grounds specified in the Federal Arbitration Act.

7.5 Confidentiality.

All mediation and arbitration proceedings will be conducted in secrecy. Except as otherwise agreed by the Parties in writing, (a) the fact of the pending mediation or arbitration will not be disclosed or confirmed by the Parties, the mediator or the arbitrator to any person who is not a party to, or called to testify at, the proceedings until the mediation has been terminated or the arbitration award has been made, (b) the proceedings will not be recorded or transcribed in any manner, and (c) all documents, testimony and records (other than the contract documents out of which the dispute arises) will be received, heard and maintained by the mediator and the arbitrator in secrecy, available for inspection only by the Parties, their attorneys and by experts who will agree, in advance and in writing, to receive all such information in secrecy. The secret information will not be described in any mediator communication or in the arbitration award in such manner as to be commercially useful. Notwithstanding the foregoing, this Section is not intended to prohibit any Party from making disclosures regarding the mediation and arbitration proceedings to a court to the extent (and only to the extent) necessary in connection with an appeal permitted by Section 7.4, provided the Party requests the court to preserve the secrecy of the mediation and arbitration proceedings and the information pertaining thereto.

ARTICLE VIII
GENERAL PROVISIONS

8.1 Termination of Agreement.

a. Conditions Subsequent. Notwithstanding anything to the contrary contained herein, the Parties' rights and obligations under this Agreement (including AAW'S obligation to provide Non-Potable Water Services under this Agreement) are conditioned upon (i) obtaining approval of the Commission for the extensions of the certificates of convenience and necessity of AAW and (to the extent the Commission asserts jurisdiction over this Agreement) this Agreement as contemplated by Article II, (ii) obtaining the other Authorizations as contemplated by Article II, and (iii) having the appropriate governmental authorities recognize that the water delivered to Developer for use on the Golf Course is a Nongroundwater Supply; (iv) the Commission's establishing the rates and tariffs described in Section 3.2(a)(i); and (v) satisfaction of the conditions described in Sections 2.3 and 3.1.

b. Failure of Condition. If the conditions referenced in Sections 8.1(a) are not satisfied on or before June 30, 2003 (or such later date as Developer and AAW may mutually agree in writing), then this Agreement thereafter may be terminated (and will be of no further force or effect) by a Party's giving notice to the other Party on or before December 31, 2003, of such Party's election so to terminate. This Agreement may also be terminated pursuant to Section 10.1(b) of the Water/Wastewater Agreement.

8.2 Force Majeure.

No Party will be liable to another Party for failure, default or delay in performing any of its obligations under this Agreement, other than for the payment of money obligations specified in this Agreement, if such failure, default or delay is the result of any cause or event not

within the control of the Party having the obligation and which, by the exercise or reasonable diligence, such Party is unable to prevent or mitigate (such a cause or event being "Force Majeure"). Force Majeure does not include changes in local, state, national or international general economic conditions. The Party's failure, default or delay in performance will be excused only for as long as such cause or event is present. If a Force Majeure occurs, the Parties will proceed with diligence to do what is reasonable and necessary so that each Party may perform its obligations under this Agreement. AAW and Developer will not in any event incur any liability to one another or to any other Party for consequential or any other damages which may result from delays in initiating service, or from interruptions in or other malfunctions of service, based upon the foregoing circumstances.

8.3 Assignment.

This Agreement may be assigned (i) by a Party to a parent corporation of which it is a wholly-owned subsidiary, or to a wholly-owned subsidiary of the parent, or to a wholly-owned subsidiary of a wholly-owned subsidiary of the parent or another entity wherein Developer or AAW has a controlling interest, provided that the Party making such assignment will be a guarantor of the full and faithful performance of this Agreement by the assignee and executes documents to that effect (in form and substance reasonably satisfactory to the other Parties), (ii) by Developer to a person which is not an Affiliate of Developer and which acquires all, but not less than all, of Developer's right, title and interest in and to the Golf Course (with all references to "Developer" in this Agreement being deemed after the assignment to refer to the assignee), or (iii) notwithstanding the foregoing, by Webb only to a person which is not an Affiliate of Webb and which acquires all, but not less than all, of Webb's right, title and interest in and to the Water Lease. Notwithstanding the foregoing, the rights and obligations associated

with the use of water withdrawn from the On-Site Wells for construction purposes (as described in Article V) are personal to Del Webb Home Construction, Inc.; accordingly, any assignment by it pursuant to the foregoing clause (ii) will not include the rights and obligations associated with the use of such water for construction purposes, which will remain the rights and obligations of Del Webb Home Construction, Inc. (including its obligations as to Authorizations, reporting and costs as described in Sections 5.2, 5.3 and 5.5) and which are assignable by it only pursuant to clause (i) or pursuant to the following sentence. This Agreement will not be otherwise assignable by a Party without the written consent, in advance, of the other Parties, which consent will not be unreasonably withheld or delayed. Notwithstanding any other provision of this Section, no assignment of this Agreement may be made by a Party unless the assignee agrees in writing to be bound by this Agreement. For purposes of this Section, "assignment" includes (a) any transfer or delegation by a Party of any right or obligation of such Party arising under this Agreement, including any collateral assignment or other encumbrance of an interest in this Agreement, (b) any sale of substantially all of the assets of a Party, and (c) any merger of a Party with another person.

8.4 Notices.

Except as otherwise specified in this Agreement, any notice, demand, request or other communication required or authorized by this Agreement to be given in writing to a Party must be either (a) personally delivered, (b) mailed by registered or certified mail (return receipt requested), postage prepaid, (c) sent by overnight express carrier, or (d) sent by telecopy or electronic mail, in each case at the following address:

To the Developer addressed as follows:

Del Webb Home Construction, Inc.
Attn: Mr. Samuel C. Colgan
Del Webb's Sun City Grand
14780 West Mountain View Blvd.
Surprise, Arizona 85374

with a copy to:

Del Webb Corporation
Attn: Jami L. Schulman
6001 North 24th Street
Phoenix, Arizona 85016

or to such other address as Developer may advise AAW in writing, and to AAW at:

Arizona-American Water Resources
Attn: General Manager
15626 N. Del Webb Boulevard
P.O. Box 1687
Sun City, Arizona 85372

with a copy to:

Gallagher & Kennedy, P.A.
Attn: Terence W. Thompson, Esq.
2575 East Camelback Road
Phoenix, Arizona 85016

or to such other address as AAW may advise Developer in writing. The designation of such person and/or address may be changed at any time by either Party upon written notice given under this Section. All notices, demands, requests or other communications sent pursuant to this Section will be deemed received (i) if personally delivered, on the business day of delivery, (ii) if sent by telecopy or electronic mail before noon (12:00 p.m.) Phoenix time, on the day sent if a business day or, if such day is not a business day or if sent after noon (12:00 p.m.) Phoenix time, on the next business day, (iii) if sent by overnight express carrier, on the next business day immediately following the day sent, or (iv) if sent by registered or certified mail, on the earlier of

the third business day after the day sent or when actually received. Any notice by telecopy or electronic mail will be followed by delivery on the next business day by overnight express carrier or by hand.

8.5 Entire Agreement; Attachments.

a. Entire Agreement. This Agreement (including all exhibits and any other attachments) constitutes the entire understanding between the Parties regarding the subject matter of this Agreement, supersedes any and all previous understandings between the Parties (including any letter of intent) regarding the subject matter of this Agreement, and binds and inures to the benefit of the Parties, their successors and assigns. None of the Parties has entered into this Agreement in reliance upon any oral or written representation or information provided by any other Party. As provided in Section 6.2 of the Water/Wastewater Agreement, if any inconsistency between the Water/Wastewater Agreement and this Agreement exists, the Water/Wastewater Agreement governs the matter.

b. Attachments. Attachments not complete at the effective date of this Agreement will be added as they are completed by written amendment, signed by each Party. Each attachment that is completed or modified by a subsequent amendment will note on its face the date and number of that amendment.

8.6 Further Assurances.

If a Party determines in its reasonable discretion that any further instruments, assurances or other things are necessary or desirable to carry out the terms of this Agreement, the other Parties will execute and deliver all instruments and assurances and do all things reasonably necessary or desirable to carry out the terms of this Agreement, including using their best efforts to negotiate and enter into any agreements that may become necessary and appropriate.

8.7 No Waiver.

The failure of a Party to enforce at any time any of the provisions of this Agreement (or to require at any time performance by the other Party of any of its provisions) is not to be construed as a waiver of such provisions and does not in any way affect the validity of this Agreement or the right of such Party to enforce any provision.

8.8 Modification or Waiver.

A modification or waiver of all or any part of this Agreement is not valid unless it is reduced to a written agreement signed by the Parties.

8.9 Governing Law and Interpretation.

The laws of the State of Arizona govern the interpretation and performance of this Agreement.

8.10 Counterparts.

This Agreement may be executed in several counterparts.

8.11 No Third Party Beneficiaries.

Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Parties. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any Party. This Agreement does not create any duty, liability or standard of care to any person not a Party.

8.12 Confidential and Proprietary Information.

Any information provided by one Party to another Party that is conspicuously labeled "CONFIDENTIAL AND PROPRIETARY," or any matter derived from such information, may not be disclosed by the receiving Party to any third party, except: (i) with the

providing Party's consent, not to be unreasonably withheld, (ii) pursuant to a subpoena or other legal process or pursuant to a court order or a regulatory authority order obtained after the receiving Party has used reasonable efforts to obtain an order of the court protecting the confidentiality of the information and/or restricting its dissemination, (iii) if such dissemination is necessary after the occurrence of a default under this Agreement by the Party supplying such information in connection with the enforcement of the rights of the non-defaulting Party, (iv) if the information provided by one Party to another Party is otherwise publicly available, or (v) the disclosure is made only to a person which has become an assignee of a Party in accordance with Section 8.3. If a Party that receives confidential information becomes aware of any attempt by any third party or court to obtain any confidential information, the Party will, as soon as practicable thereafter, notify the Party that labeled the information as confidential of the attempt to obtain the information. Upon request of the providing Party, the information must be promptly returned.

8.13 Computation of Time.

In computing any period of time prescribed or allowed under this Agreement, the day of the act, event or default from which the designated period of time begins to run is included. Weekend and holidays are also included.

8.14 No Party the Drafter.

This Agreement is the product of negotiation between the Developer and AAW. No Party is deemed the drafter of this Agreement.

8.15 Interest on Late Payments.

Except as otherwise provided herein, all payments under this Agreement that are not paid within 30 days of the due date of the payment will accrue interest thereon at the Prime Rate plus two percent (2%) per annum, compounded monthly from the due date of the payment until the amount is paid.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be entered into on the day and year first above written.

DEL WEBB HOME CONSTRUCTION,
INC., an Arizona corporation

By: 
Its: V.P. Land Development

ARIZONA-AMERICAN WATER
COMPANY, an Arizona corporation

By: 
Its: President

DEL WEBB CORPORATION, a
Delaware corporation

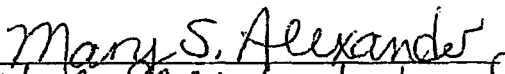
By: 
Its: Vice President - Legal
and Associate General Counsel

EXHIBIT A
DEFINITIONS

"AAA" means the American Arbitration Association.

"AAW" means Arizona-American Water Company, an Arizona corporation.

"ADEQ" means Arizona Department of Environmental Quality.

"ADWR" means the Arizona Department of Water Resources.

"Additional Water Lease Charges" has the meaning set forth in the Water/Wastewater Agreement.

"Adjacent Lands" means the lands, other than the Project, adjacent to the Project that are included in the planning area of the AAW Master Plan (as defined in the Water/Wastewater Agreement).

"Affiliate" means any person (other than an individual) which directly or indirectly controls, is controlled by, or is under common control with, another person. For purposes of this definition, "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise.

"Agreement" means this Agreement dated as of August 5, 2002, among Developer, Webb and AAW, including all exhibits and any other attachments, as amended from time to time.

"Ak-Chin" has the meaning set forth in the Water/Wastewater Agreement.

"Ak-Chin Additional Water Lease Costs" has the meaning set forth in the Water/Wastewater Agreement.

"Ak-Chin Water" has the meaning set forth in the Water/Wastewater Agreement.

"Ak-Chin Water Lease Costs" has the meaning set forth in the Water/Wastewater Agreement.

"Ak-Chin Water Use Costs" has the meaning set forth in the Water/Wastewater Agreement.

"Application" has the meaning set forth in the Water/Wastewater Agreement.

"assignment" has the meaning set forth in Section 8.3.

"Authorizations" means certificates of convenience and necessity, permits, licenses, operating agreements, franchises, and similar authorizations obtained from regulatory agencies and other governmental entities and required by law to provide Non-Potable Water Services and to operate the Non-Potable Facilities as contemplated in this Agreement.

"Bodine Property" has the meaning set forth in the Well-Sharing Agreement.

"Bodine Well" means the Bodine Well as defined in the Well-Sharing Agreement.

"Buildout" means the point in time when 1600 ERUs (as defined in the Water/Wastewater Agreement) in the Project have begun taking Potable Water Services.

"CAP Water" means water obtained from the Central Arizona Project.

"Commission" means the Arizona Corporation Commission.

"County Regulation" has the meaning set forth in Recital E.

"Developer" means Del Webb Home Construction, Inc., an Arizona corporation.

"Developer Master Plan" has the meaning set forth in the Water/Wastewater Agreement.

"Force Majeure" has the meaning set forth in Section 8.2.

"Golf Course" means the golf course which will be located within the Project.

"includes" and "including" denote a partial definition, by way of illustration and not by way of limitation.

"Nongroundwater Supply" means surface water, effluent, recovered effluent, recovered surface water and water from any other source (including CAP Water), but not including groundwater.

"Non-Potable Facilities" means all facilities (whether or not located within the Project) required for storage and distribution of surface water, effluent, recovered effluent, recovered surface water, and water from any other source (including CAP Water), but not including groundwater, which is not suitable for human consumption and which is for construction, golf courses, golf practice facilities, golf storage lakes, schools, parks, common areas, lake fill, landscape irrigation or other like purposes.

"Non-Potable Water Services" means storage and distribution of surface water, effluent, recovered effluent, recovered surface water, and water from any other source (including CAP Water), but not including groundwater, which is not suitable for human consumption and which is for construction, golf courses, golf practice facilities, golf storage lakes, schools, parks, common areas, lake fill, landscape irrigation or other like purposes.

"On-Site Wells" means the Webb Well and the Bodine Well.

"Operational Acceptance" has the meaning set forth in the Water/Wastewater Agreement.

"Party" and "Parties" means Developer, Webb and AAW.

"person" means an individual or an entity. For purposes of this definition, "entity" means a corporation, association, company, business trust, trust, estate, partnership, joint venture, two or more persons having a joint or common economic interest, any person other than an individual, and any governmental body.

"Potable Water Services" means production, storage, treatment and distribution of water which is fit for human consumption to individual residential homes, commercial properties, resorts, schools, parks, churches or other improvements.

"Prime Rate" means the interest rate per annum designated by Bank One, Arizona, NA, a national banking association (or its successors), as its "Prime Rate," as publicly announced by Bank

One (or such successors) from time to time as a means of pricing credit extensions to some customers.

"Project" has the meaning set forth in Recital A.

"Representative" has the meaning set forth in Section 6.1.

"Underground Storage Facility" has the meaning set forth in A.R.S. § 45-802.1.20, as such statute may be amended from time to time.

"Wastewater Services" means collection, treatment and disposal of wastewater from individual residential homes, commercial properties, schools, parks, churches or other improvements.

"Water Lease" has the meaning set forth in the Water/Wastewater Agreement.

"Water Lease Charges" has the meaning set forth in the Water/Wastewater Agreement.

"Water Services" means Potable Water Services and Non-Potable Water Services.

"Water Use Charges" has the meaning set forth in the Water/Wastewater Agreement.

"Water/Wastewater Agreement" means the Pleasant Valley Country Club Water/Wastewater Agreement dated as of August 5, 2002, between Developer and AAW, including all exhibits and any other attachments, as amended from time to time.

"Webb" means Del Webb Corporation, a Delaware corporation.

"Webb Parties" means Webb and Developer.

"Webb Well" means the Webb Well as defined in the Well-Sharing Agreement.

"Well-Sharing Agreement" means the Well-Sharing Agreement entered into February 25, 2002, between Developer and Ralph E. Bodine and Linda S. Bodine, Trustees of that certain Revocable Living Trust Agreement, dated December 28, 1987, as amended. The Well-Sharing Agreement is attached to this Agreement as Exhibit D.

EXHIBIT B
PROJECT AREA

Del Webb's
Pleasant Valley Country Club
20 June 2002
DEI #01016

EXHIBIT "B"

PARCEL 1

The West Half of Section 14, and the East Half of Section 15, Township 4 North, Range 1 West, of the Gila and Salt River Meridian, Maricopa County, Arizona.

Said parcel contains 638.3866 acres, more or less.

PARCEL 2

The North Half of the Northwest Quarter of Section 15, Township 4 North, Range 1 West, of the Gila and Salt River Meridian, Maricopa County, Arizona;

EXCEPTING THEREFROM:

A portion of land, known as part of a Road Declared (Road File No. 5086), as recorded in Document 99-0769318, of the Maricopa County Records, as cited on Page 4 of said Document, and quoted and more fully described as follows:

Within Section Fifteen (15), Township Four (4) North, Range One (1) West, said roadway occupies the area North of a line more particularly described as;

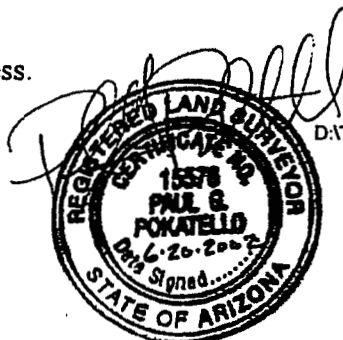
Commencing at the Northwest corner of said Section Fifteen (15);

Thence South 00°07'44" West a distance of 149.34 feet along the West line of said Section Fifteen (15) to a point, said point being a point on a non-tangent curve, and also being the POINT OF BEGINNING of the Southerly line of said roadway;

Thence from a Local Tangent Bearing of North 72°13'23" East, along said non-tangent curve, being a curve to the Left, having a radius of 4150.00 feet, and a central angle of 01°36'48", a distance of 116.85 feet to a Point of Tangency;

Thence North 70°36'35" East a distance of 330.92 feet to the North line of said Section Fifteen (15) and the Terminus of said Southerly line.

Said parcel contains 79.0841 acres, more or less.



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N.T.S.

TRILBY

WASH

PROPOSED EL MIRAGE ROAD
VALLEY DRIVE
PROPOSED DEER

PLEASANT VALLEY COUNTRY CLUB
PARCEL 1
638.3866 AC

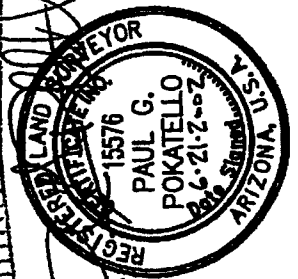
PARCEL 2
79.0841 AC

SUN CITY WEST

EXHIBIT "B"

PROJECT AREA MAP

SUN CITY WEST



CB-1 Exhibit 2

Exhibit 2

